

House File 368 - Introduced

HOUSE FILE 368

BY STECKMAN, McCONKEY, HALL,
KELLEY, STAED, KRESSIG,
DAWSON, T. TAYLOR, and
JACOBY

A BILL FOR

1 An Act relating to the establishment of first-time homebuyer
2 savings accounts in Iowa, including related individual
3 income tax exemptions, making penalties applicable, and
4 including effective date and applicability provisions.
5 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

1 Section 1. NEW SECTION. 12I.1 Short title.

2 This chapter may be cited as the "*Iowa First-time Homebuyer*
3 *Savings Account Act*".

4 Sec. 2. NEW SECTION. 12I.2 Definitions.

5 As used in this chapter, unless the context otherwise
6 requires:

7 1. "*Account holder*" means a first-time homebuyer who is a
8 resident of this state and who establishes, either individually
9 or jointly with the resident's spouse who is also a first-time
10 homebuyer, a first-time homebuyer savings account. A person
11 ceases to be an account holder following the purchase of a
12 principal residence after the establishment of a first-time
13 homebuyer savings account.

14 2. "*Eligible costs*" means the down payment and allowable
15 closing costs for the purchase of a principal residence in Iowa
16 which principal residence is purchased after the establishment
17 of the first-time homebuyer savings account.

18 3. "*First-time homebuyer*" means an individual who has never
19 owned or purchased under contract for deed, either individually
20 or jointly, a single-family, owner-occupied residence,
21 including but not limited to a manufactured or mobile home that
22 is assessed and taxed as real estate or taxed under chapter
23 435 or taxed under other similar law of another state, or a
24 condominium unit.

25 4. "*First-time homebuyer savings account*" means an account
26 established with a state or federally chartered bank, savings
27 and loan association, credit union, or trust company in this
28 state to finance the purchase of a principal residence in this
29 state.

30 5. "*Principal residence*" means a single-family,
31 owner-occupied residence in the state that will be the
32 principal place of residence of the account holder, whether
33 owned or purchased under contract for deed by the account
34 holder, individually or jointly. "*Principal residence*" includes
35 but is not limited to a manufactured home or mobile home that

1 is assessed and taxed as real estate or taxed under chapter
2 435, and a condominium unit.

3 6. "*Resident*" means the same as defined in section 422.4.

4 Sec. 3. NEW SECTION. 12I.3 First-time homebuyer savings
5 account.

6 1. *Establishment.*

7 a. A first-time homebuyer who is a resident of this
8 state may establish, either individually or jointly with
9 the resident's spouse who is also a first-time homebuyer, a
10 first-time homebuyer savings account to finance the purchase
11 of a principal residence. Married taxpayers electing to file
12 separate tax returns or separately on a combined tax return
13 shall not establish or maintain a joint first-time homebuyer
14 savings account.

15 b. The account holder who establishes the first-time
16 homebuyer savings account, individually or jointly, is the
17 owner and administrator of the account.

18 c. A first-time homebuyer savings account shall be an
19 interest-bearing savings account.

20 d. A financial institution shall not be responsible for
21 the use or application of funds within a first-time homebuyer
22 savings account solely because the account is held at that
23 financial institution.

24 2. *Use and administration by account holder.*

25 a. The account holder shall use the money in the first-time
26 homebuyer savings account for eligible costs related to the
27 purchase of a principal residence within ten years following
28 the year in which the account is first established.

29 b. An account holder shall not contribute to a first-time
30 homebuyer savings account for a period exceeding ten years.

31 c. There is no limitation on the amount of contributions
32 that may be made to or retained in a first-time homebuyer
33 savings account.

34 d. The account holder shall not use funds held in a
35 first-time homebuyer savings account to pay expenses, if any,

1 of administering the account, except that a service fee may be
2 charged to the account by the financial institution where the
3 account is held.

4 *e.* Documentation regarding the segregation of funds in
5 a first-time homebuyer savings account from other funds and
6 documentation regarding eligible costs for the purchase of a
7 principal residence shall be maintained by the account holder.
8 The burden of proving that a withdrawal from a first-time
9 homebuyer savings account was made for eligible costs is upon
10 the account holder.

11 *f.* Within thirty days of being furnished proof of death
12 of the account holder, the financial institution where
13 the first-time homebuyer savings account is held shall
14 distribute any amount remaining in the first-time homebuyer
15 savings account to the estate of the account holder or to a
16 transfer on death or pay on death beneficiary of the account
17 properly designated by the account holder with the financial
18 institution.

19 *g.* The account holder shall file reports with the department
20 of revenue as reasonably required by the department of revenue.

21 *h.* The account holder is required to remit the withdrawal
22 penalty in section 422.7, subsection 57, paragraph "c", if
23 assessed, to the department of revenue in the same manner as
24 provided in section 422.16, subsection 2.

25 3. *Penalties.* A person who knowingly prepares or causes to
26 be prepared a false claim, statement, or billing to justify the
27 withdrawal of money from a first-time homebuyer savings account
28 is guilty of a serious misdemeanor for each violation.

29 Sec. 4. NEW SECTION. 12I.4 **Tax considerations.**

30 The state income tax treatment of a first-time homebuyer
31 savings account shall be as provided in section 422.7,
32 subsection 57.

33 Sec. 5. NEW SECTION. 12I.5 **Rules.**

34 The director of revenue and the treasurer of state shall each
35 adopt rules to jointly implement and administer this chapter.

1 Sec. 6. Section 422.7, Code 2015, is amended by adding the
2 following new subsection:

3 NEW SUBSECTION. 57. *a.* Subtract the amount of
4 contributions made by an account holder to the account holder's
5 first-time homebuyer savings account during the tax year, not
6 to exceed three thousand dollars per individual per tax year,
7 or six thousand dollars per tax year for a married couple who
8 have a joint first-time homebuyer savings account and file a
9 joint return. An amount of contributions made during a tax
10 year in excess of three thousand dollars, or six thousand
11 dollars, as applicable, may be subtracted by an account holder
12 in a subsequent tax year, provided the total exemption under
13 this paragraph for the subsequent tax year does not exceed
14 three thousand dollars, or six thousand dollars, as applicable.
15 This paragraph shall not apply to an account holder more
16 than ten years after the account holder first establishes a
17 first-time homebuyer savings account.

18 *b.* Subtract, to the extent included, income from interest
19 and earnings received from an account holder's first-time
20 homebuyer savings account. This paragraph "b" shall not apply
21 to any interest and earnings received by an account holder more
22 than ten years after the account holder first establishes a
23 first-time homebuyer savings account.

24 *c.* (1) Add, to the extent previously subtracted under
25 paragraph "a", the amount resulting from a withdrawal made from
26 a first-time homebuyer savings account for purposes other than
27 the payment of eligible costs of the account holder. Such
28 withdrawal shall also be assessed a penalty in an amount equal
29 to ten percent of the amount of the withdrawal that represents
30 interest and earnings in the first-time homebuyer savings
31 account. The penalty shall not apply to withdrawals made on
32 account of the death of the account holder or for the purpose
33 of paying the eligible costs of the account holder.

34 (2) For purposes of this paragraph "c", any amount remaining
35 in a first-time homebuyer savings account of an account holder

1 on the day after the purchase of a principal residence or the
2 last business day of the tenth calendar year following the
3 calendar year in which the account holder first establishes a
4 first-time homebuyer savings account, whichever occurs first,
5 shall be considered a withdrawal under subparagraph (1).

6 (3) For purposes of this paragraph "c", the following shall
7 not be considered a withdrawal under subparagraph (1):

8 (a) Any amount transferred between different first-time
9 homebuyer savings accounts of the same account holder by a
10 person other than the account holder.

11 (b) Any amounts withdrawn or otherwise transferred from a
12 first-time homebuyer savings account pursuant to an order in
13 bankruptcy.

14 d. For purposes of this subsection, "account holder",
15 "eligible costs", and "first-time homebuyer savings account" all
16 mean the same as defined in section 12I.2.

17 Sec. 7. EFFECTIVE DATE. This Act takes effect January 1,
18 2016.

19 Sec. 8. APPLICABILITY. This Act applies to tax years
20 beginning on or after January 1, 2016.

21 EXPLANATION

22 The inclusion of this explanation does not constitute agreement with
23 the explanation's substance by the members of the general assembly.

24 This bill allows first-time homebuyers who are residents
25 of Iowa to establish a first-time homebuyer savings account
26 (account) with a state or federally chartered bank, savings and
27 loan association, credit union, or trust company in this state
28 to finance the purchase of a principal residence in this state.
29 "First-time homebuyer" and "principal residence" are defined in
30 the bill. The account is required to be an interest-bearing
31 savings account. The account may be established individually
32 or jointly with the resident's spouse. However, married
33 taxpayers electing to file separate tax returns or separately
34 on a combined tax return shall not establish or maintain a
35 joint account.

1 There is no limitation on the amount of contributions that
2 may be made to or retained in a first-time homebuyer savings
3 account. An account holder is required to use the funds in
4 an account for eligible costs related to the purchase of a
5 principal residence within 10 years following the year in which
6 the account is first established.

7 "Eligible costs" are defined in the bill and include the down
8 payment and allowable closing costs of a principal residence
9 that was purchased after the establishment of the account. If
10 the account holder withdraws funds for any purpose other than
11 the payment of eligible costs, the account holder is subject to
12 a penalty equal to 10 percent of the amount of the withdrawal
13 that represents interest and earnings in the account, unless
14 the withdrawal occurs because of the death of the account
15 holder. The penalty amounts are required to be remitted by the
16 account holder to the department of revenue in the same manner
17 as Code section 422.16(2), relating to the withholding of
18 income tax. A person ceases to be an account holder following
19 the purchase of a principal residence after the establishment
20 of an account.

21 Accounts are required to be administered by the account
22 holder. The bill prohibits the account holder from using
23 account funds to pay administrative expenses of the account,
24 but the bill does allow a financial institution where the
25 account is held to charge a service fee. Documentation
26 regarding the segregation of funds in the account from other
27 funds and documentation regarding eligible costs shall be
28 maintained by the account holder. The bill also requires the
29 account holder to file reports as required by the department of
30 revenue. Within 30 days of being furnished proof of death of
31 the account holder, the financial institution where the account
32 is held shall distribute the funds to the estate of the account
33 holder or to a transfer on death or pay on death beneficiary
34 properly designated by the account holder.

35 The bill provides for two individual income tax incentives

1 relating to first-time homebuyer savings accounts. First,
2 an account holder is allowed to subtract from the individual
3 income tax the amount of contributions made during the year
4 to the account holder's account, not to exceed \$3,000 per
5 individual, or \$6,000 for a married couple with a joint account
6 and filing a joint income tax return. If the account holder
7 contributes more than that amount, the excess may be subtracted
8 in a subsequent tax year provided the total exemption in any
9 one tax year does not exceed \$3,000 or \$6,000, as applicable.
10 Second, the bill exempts any interest or earnings received from
11 an account holder's account. Both the contribution exemption
12 and interest exemption only apply for the first 10 years after
13 the account holder establishes an account.

14 The bill requires an account holder to add to net income the
15 amount of withdrawal from an account that was made for purposes
16 other than eligible costs of the account holder to the extent
17 it was previously subtracted as a contribution. Any amount
18 remaining in an account on the day after an account holder
19 purchases a principal residence or on the last business day of
20 the 10th calendar year following the calendar year the account
21 holder first establishes an account, whichever occurs first,
22 shall be considered a withdrawal that must be added to net
23 income to the extent it was previously subtracted. However,
24 amounts transferred between different accounts of the same
25 account holder by a person other than the account holder or
26 amounts withdrawn pursuant to an order in bankruptcy shall not
27 be considered withdrawals that must be added to net income.

28 The bill makes it a serious misdemeanor to knowingly prepare
29 or cause to be prepared a false claim, statement, or billing
30 to justify the withdrawal of money from a first-time homebuyer
31 savings account. A serious misdemeanor is punishable by
32 confinement for no more than one year and a fine of at least
33 \$315 but not more than \$1,875.

34 The bill requires the director of revenue and the treasurer
35 of state to each adopt rules to jointly implement and

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1 administer the bill.

2 The bill takes effect January 1, 2016, and applies to tax

3 years beginning on or after that date.